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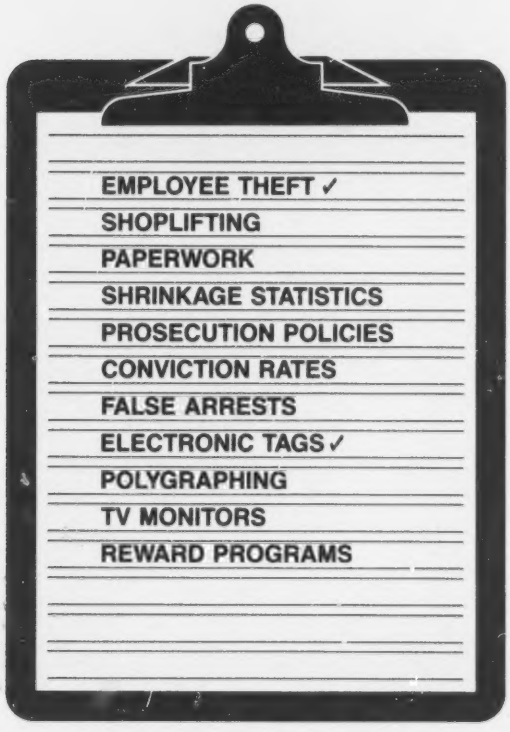
NMRI
National Mass Retailing Institute

4TH Annual Security and Shrinkage Study



How Does Your Company Compare?

Conducted for NMRI by

ARTHUR YOUNG

NMRI

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SECURITY AND SHRINKAGE

Annual Study of Inventory Shrinkage Control and Security Procedures in Retailing
Conducted for the National Mass Retailing Institute by Arthur Young & Company

NATIONAL MASS RETAILING INSTITUTE (NMRI)

The NMRI is an association representing more than 450 companies in the mass merchandising industry. The association keeps its members current on retail and business matters through publication of a monthly newsletter and sponsorship of meetings, seminars, and roundtables for groups that include executives involved in:

- Annual merchandising and management conventions
- Top management
- Financial management
- Advertising and promotion
- Loss prevention
- Personnel
- Government affairs

Communications about NMRI — and requests for additional copies of this study — should be directed to its president, Richard Hersh, at the association's headquarters: 570 Seventh Avenue, New York, NY 10018.

ARTHUR YOUNG & COMPANY

Arthur Young is an international accounting and consulting firm. Through its National Retail Group, the firm specializes in providing accounting, tax, and management consulting services to executives and companies in the retail industry. Arthur Young has offices in 84 cities in the United States and in 245 cities in 66 other countries. Questions or comments for Arthur Young should be addressed to either of the following:

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ARTHUR YOUNG

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December 1982

Dear Reader:

We are pleased to submit the 4th Annual Report on Security and Loss Prevention Practices and Shrinkage in the Retail Industry. This year's study represents a 56% increase in the number of participants (not including food stores). Once again, the study has been sponsored by the National Mass Retailing Institute. This year, it has been expanded to include a section on the shrinkage characteristics of department stores. We have also included, for the first time, a section on shrinkage characteristics of food stores. This section is presented as an appendix to this study. The data relating to food stores are not represented in the information included in the main body of this report.

The major results in this year's report include:

SHRINKAGE

- Despite the recessionary economy and high unemployment—two factors that might contribute to an increase in shrinkage—our data revealed an unexpected result. Shrinkage remained relatively constant at 2% of sales. This represented approximately $1.7 billion. We credit these figures to the greater attention retailers are paying to the prevention of theft. Department stores reported a decline in shrinkage levels from 2.4% to 2.3%. Shrinkage levels in mass merchandise chains and specialty stores remained at 1.9% and 2.0% of sales, respectively.

SECURITY COSTS

- During the past year, retailers appeared to be focusing more on prevention than on prosecution, as can be seen from the trend in security expenditures as a percentage of sales. That figure rose from 0.45% to 0.49%. This amounts to $406 million and represents a 14% increase over 1980 security expenditures. Electronic tags continue to be the most effective device used on the selling floor. In addition, mass merchandisers are increasing their use of polygraphing to screen new hires in nonsecurity functions.

PROSECUTIONS

- Fewer companies are prosecuting all employee and customer offenders. Thirty-five percent of the participants are prosecuting all customers caught shoplifting, and 28% of participating companies prosecuted all employees caught. This finding supports a significant trend participating retailers have shown—a trend toward theft prevention instead of costly prosecutions.
- Prosecution costs as a percentage of sales increased from 0.13% to 0.16% in 1981. This amounts to more than $11 million in costs to prosecute shoplifters and other offenders. This can be partially attributed to the increase in the number of apprehensions.
- The number of reported apprehensions increased from 315,000 to 434,000.
- The number of prosecutions as a percentage of apprehensions declined from 51% to 48%, and the percentage of convictions to prosecutions also declined from 84% in 1980 to 77% in 1981.

EMPLOYEE REWARD AND RECOGNITION PROGRAMS

- Employee reward and recognition programs continued to be a significant factor in containing shrinkage. More than 70% of the participants had some type of program.
- Companies with higher shrinkage reported reward programs more often than other respondents; 80% of the retailers with shrinkage in excess of 3% of sales have some form of reward or recognition program.

SHRINKAGE ATTRIBUTIONS

- In the aggregate, retailers attributed 50% of their shrinkage to employee theft—37% of which is believed to occur at checkout—30% to shoplifting, and 20% to paperwork problems.
- Ladies' clothing, pharmaceuticals and cosmetics, and jewelry were noted as the high shortage departments.

The information presented in this study was obtained from questionnaires completed by retail organizations and was computer tabulated; it has therefore not been subjected to independent audit. We encourage our readers to contact us directly with comments and suggestions for next year's survey.

Very truly yours,

Arthur Young & Company

by: Errol M. Cook
Chairman, National Retail Group

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Introduction

This report is the fourth in a series conducted by Arthur Young & Company under the sponsorship of the National Mass Retailing Institute (NMRI). The number of retailers responding to the survey increased by 56% over last year's participants. We believe that this substantial increase reflects the importance retail management attaches to inventory shrinkage control and security procedures. This year we also include a report on food retailers (Appendix II). Data used to compile findings and statistics relating to food stores are not included in the main body of this report. In future years, as our data base expands, we anticipate increasing the number of tables and findings related to specialty stores.

For purposes of this study the following definitions apply:

- *Mass merchandisers.* Discounters, general merchandisers, drug chains, and variety chains with multidepartments, central checkout, and limited selling staff.
- *Department stores.* Multidepartments offering departmental checkout with highly visible selling service. This includes specialty stores that principally have department store characteristics.
- *Specialty stores.* Few departments with central checkout, generally with 7,500 square feet or less of selling space.

This report provides information that may be of value to the retailer in planning new loss prevention programs and evaluating programs currently in practice. The report is designed to aid management in the development of action-oriented programs in an effort to improve shrinkage results. This year's report has been expanded to include, in several sections, observations and implications of the findings as they relate to retailers.

The study was performed in the fall of 1982. This year's questionnaire was revised based on the results of last year's study and specific comments received from retailers. Additional subjects surveyed included polygraphing. There is also an expanded section on prosecution policies. Questionnaires were mailed to retail companies from lists compiled from a variety of sources. The identities of the respondents to the questionnaires have been kept confidential.

Responses to the questionnaire were processed by an independent computer service organization; the data compiled led to the Executive Highlights that we issued in October 1982 and to this final report. In most cases, percentages throughout the report have been rounded to the nearest whole number.

The findings presented in this study represent data submitted by the participating retail organizations. Although the number of participants, sales volume, categories, and locations have increased from last year, the information included here should not be used to make projections about the entire retail industry.

Tables and narrative covering answers to every question on the original survey questionnaire are not included because of space limitations, and, in some cases, because of a lack of sufficient responses to some of the questions. Additional details relating to specific questions may be provided on request, if possible, from the data compiled for all of the responses.

In comparing sales, shrinkage, security, and prosecution expenditures for 1980 and 1981, we used data supplied by this year's participants for both years.

The Participants

Participants in this year's study represent 198 retail organizations operating in more than 33,000 locations with total sales in excess of $84 billion. The total cost of shrinkage for these organizations was $1.73 billion. Last year's study included responses from 127 companies operating in more than 25,000 individual locations, with aggregate sales volumes in excess of $53 billion.

Eighty-six mass merchandisers operating in more than 17,500 individual locations participated in this year's study. Their aggregate 1981 sales volume was in excess of $50 billion. Shrinkage for these organizations exceeded $950 million. (See Table 1.) This year's participants also included 43 department store chains or organizations operating in more than 1,800 individual locations with 1981 sales in excess of $27 billion and 69 specialty stores or chains operating in more than 14,000 individual locations with sales in excess of $7 billion.

In 1981, more than one-half (101) of the participants reported sales in excess of $100 million (see Table 2), while 69 had sales from $100 million to $499 million. Eighty-five of last year's study participants reported sales of at least $100 million, while nearly one-half (60) had sales of from $100 million to $499 million. Whereas 23 of this year's mass merchandisers had at least $500 million in sales, only seven department stores and two specialty stores were as large.

Over one-half (54%) of the respondents had fewer than 50 individual store locations (see Table 3). Ten percent had at least 500 stores. As expected, mass merchandisers and specialty store companies tended to have a greater number of individual locations than department stores. Thirty-nine percent of all mass merchandisers and 27% of the specialty stores had at least 100 store locations. By comparison, 97% of the department stores had fewer than 100 locations.

Sixty-three percent of the participants reported operating at least one-half of their stores in suburban locations (see Table 4). This was true of 58% of the mass merchandisers, 78% of the department stores, and 60% of the specialty stores.

Shrinkage Results

Study participants reported inventory shrinkage to be 2% of sales for the 1981 and 1980 fiscal years. Shrinkage for mass merchandisers and specialty stores remained constant at 1.9% and 2% of sales, respectively. Department stores reported a decline from 2.4% to 2.3%. The comparatively higher shrinkage rate for department stores can be attributed in part to higher ticket merchandise sold, which produces higher dollar shrinkage at greater resale attractiveness. Shrinkage data are presented in Table 5.

While shrinkage as a percentage of sales remained relatively constant for mass merchandisers, 38% of individual companies in that group reported increased shrinkage, compared to 30% reporting decreased shrinkage. Similarly, 42% of the specialty stores reported an increase in shrinkage; 33% reported a decline. Retailers with more than 50 stores reported an increase in shrinkage levels, while shrinkage in the smaller companies, on average, showed a decrease.

Larger companies tend to have lower shrinkage levels. Companies of more than $1 billion in sales showed shrinkage to be 1.3% of sales. Similarly, retailers with more than 100 stores reported an average shrinkage level of more than 1.6% of sales. Companies of less than $100 million in sales and companies with fewer than 50 stores had average shrinkage levels of 2.07% and 2.16% of sales, respectively.

In 1981, the dollar value of shrinkage in participating companies exceeded $1.7 billion. Comprehensive information analyzing shrinkage by department was not available; however, to the extent these data were available, the highest incidence of loss was in the ladies' clothing, pharmaceuticals and cosmetics, and jewelry departments. Later in this report, we discuss some of the actions being taken by retailers that seem to be helping to reduce shrinkage. These actions are discussed in the sections on security expenditures, devices used on the selling floor, prosecutions, and personnel policies.

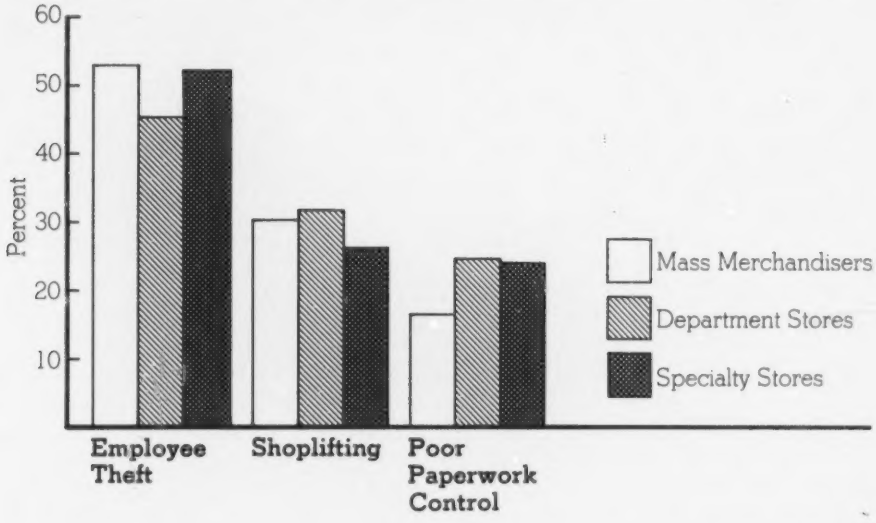
Shrinkage Attributions

The participating retail organizations attributed approximately 50% of inventory shrinkage to employee theft, 30% to shoplifting, and 20% to errors in paperwork and accounting procedures. Employee theft can result from weak systems and controls, employees having access to merchandise they could not normally afford, or poor supervision and a disregard for company policies. It should be noted that poor paperwork does not represent an actual loss of merchandise, but may reflect a breakdown in operational controls or accounting procedures.

In general, companies do not have formal methods for accurately determining what factors contribute most to shrinkage. However, we asked for opinions and perceptions for purposes of this study (see Graph A).

Graph A

Attributions of Aggregate Shrinkage by Store Type



Mass merchandisers were more likely to attribute shrinkage to some form of employee theft (53%) than were department stores (45%) and specialty stores (52%). Mass merchandisers attributed 17% of the shrinkage to poor paperwork control, as compared to department stores (24%) and specialty stores (23%). This may indicate that mass merchandisers are more confident in their control of paperwork and operational procedures than either department or specialty stores.

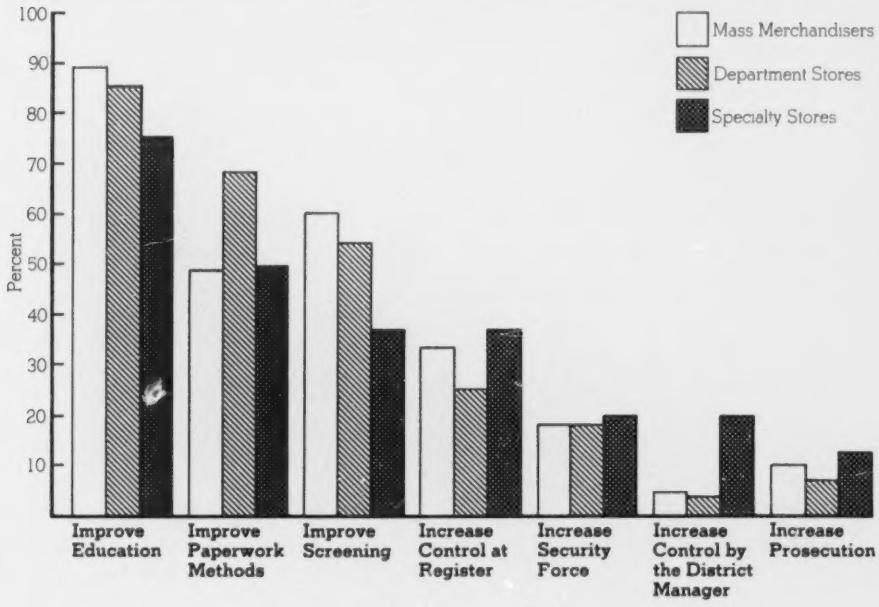
Companies participating in this year's survey estimated that 37% of employee theft occurred at the point of sale, and 17% occurred in the stock area. An employee could, for example, use voids, refunds, and underrings to add additional merchandise to a purchase at the point of sale.

Participants were asked to indicate up to three courses of action that would be most beneficial in reducing shrinkage in their companies.

The most common response was to improve employee education (83%, vs. 89% in 1980), while more than one-half (57%, vs. 55% in 1980) believed that improved employee screening would be useful. Although retailers attributed the smallest portion of their shrinkage to paperwork problems, 53% (1980, 60%) believed that improved paperwork and accounting methods was one of the best strategies for reducing shrinkage in their companies.

Graph B

Actions Retailers Believe Would Do the Most to Reduce Shrinkage



Security and Loss Prevention Programs

Security Expenditures

Expenditures on security and loss prevention staffing, equipment, and programs for fiscal 1981 increased 14% compared to 1980. The $406 million expended this year represents 0.49% of sales, an increase from last year's 0.45% of sales.

Although fewer companies are prosecuting all employees or all shoplifters caught, the number of prosecutions has increased (see "Prosecution Expenditures and Policies"), and shrinkage levels have remained relatively constant compared to 1980. It appears that retailers have been somewhat successful in preventing shoplifting through increased expenditures on improved staffing and loss prevention programs and equipment.

Security expenditures comprise a smaller percentage of sales in larger companies; companies with greater than $1 billion in sales spend 0.25%. While companies with sales of less than $100 million spend 0.60%, companies with more than 500 stores spend 0.29%. Companies with less than 50 stores spend 0.60%.

Despite the fact that retailers have been somewhat successful in combating shoplifting by spending more on prevention, the data revealed an unusual result—companies with lower shrinkage levels spend a smaller proportion of their sales on security costs. For shrinkage levels of less than 1%, the expenditure is 0.31% of sales, and for shrinkage levels of more than 3%, the expenditure is 0.69%. This can perhaps be attributed to the fact that the larger companies, with lower levels of expenditure, also have lower levels of shrinkage.

In 1981, mass merchandisers increased security and loss prevention expenditures from 0.39% of sales the previous year to 0.44%. This amount, $222 million, represents an increase of 21% over last year. The majority of mass merchandisers (70%) spent less than 0.5% of their sales on security and loss prevention (see Table 6). Most department stores (57%) spent from 0.25% to 0.99% of their sales revenues on security and loss prevention, while 67% of specialty stores spent less than 0.50%.

The increase in security and loss prevention expenditures and the resulting improved security techniques could be a factor in the containment of shrinkage, as reported in the previous section on shrinkage results.

Security Devices Used on the Selling Floor

Mirrors were the most commonly used security devices, reported by 70% of the respondents, followed by limited access areas, reported by 67%. (See Table 7.) Point-of-sale systems[1], observation booths, and TV monitors were used by 50%, 47%, and 33% of the respondents, respectively, while 29% reported using electronic tags.

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[1] Point-of-sale (POS) systems are sales entry, merchandise accounting, and financial reporting systems that capture data at the point of sale (typically through cash registers). These systems update merchandise accounting (inventory and sales and purchasing systems) and financial reporting (budget and revenue systems). Although these systems are used by all categories of retailers in the survey, department stores reported the highest percentage of use (63%). Video equipment is often used by security personnel to observe sales and ring-up procedures on monitors, while viewing a copy of the sales record from the POS equipment at the same time. Cameras are concealed within fixtures that fit in with the store's decor.

The most effective security device reported by all respondents was electronic tags (see Table 8). In contrast, only 8% of the companies using mirrors found them to be the most effective device, while 45% reported them to be the least effective (see Table 9). Mirrors are popular because of their low cost, but to be effective, they require additional surveillance personnel.

The most common security devices used by mass merchandisers were mirrors, limited access areas, and observation booths (86%, 77%, and 62%, respectively). Mass merchandisers also use lock-and-chain devices (56%), guards (52%), and point-of-sale systems (50%). Few respondents reported the use of TV monitors (36%) and electronic tags (19%).

Companies with sales of at least $500 million were more likely to use each of these security measures than stores with sales of less than $100 million. For example, 53% of the larger companies used concealed TV monitors, 66% had observation booths, and 56% employed point-of-sale technology, compared to 13%, 31%, and 38% of the smaller companies, respectively. Nearly twice as many large companies used guards (59% vs. 31%).

Of all industry segments, department stores reported using each of the security devices, except mirrors, more often than the other industry segments. The differences were most noticeable in the use of both concealed TV monitors (47%, compared to 31% of the mass merchandisers and 9% of the specialty stores); lock-and-chain devices (72%, compared to 56% of the mass merchandisers and 52% of the specialty stores); electronic tags (49%, compared to 19% of the mass merchandisers and 29% of the specialty stores); and point-of-sale technology (63%, compared to 50% of the mass merchandisers and 42% of specialty stores).

Specialty stores were the least likely to make use of guards (28%, compared to 60% of the department stores and 52% of the mass merchandisers) and observation booths (17%, compared to 62% of the mass merchandisers and 65% of the department stores). This may be because specialty stores normally have less square footage than the other two segments.

Department and specialty stores are using electronic tags more extensively than mass merchandisers. This may be because they can be used easily on soft goods. With improved technology, it is expected that their use may increase.

Warehouse Security Methods

The most widely used in-store warehouse security technique was to ensure that doors are kept closed and locked. This technique was reported by 88% of the respondents. The next most prevalent technique was the use of sealed trucks (57%). In out-of-store warehouses, closed doors and sealed trucks were also the most common security procedures (89% and 80%, respectively). Guards and TV monitors were more common in out-of-store warehouses, 53% and 45%, as compared to 28% and 26% in in-store warehouses.

Findings regarding warehouse security methods in mass merchandising companies were similar to those for all respondents.

Large companies (sales of at least $500 million) were more likely to use both in-store and out-of-store warehouse security techniques than companies with sales under $100 million. Of the industry segments, department stores reported the use of TV moni-

tors in both in-store and out-of-store warehouses most frequently. They were also most likely to use guards and sealed trucks as security measures in in-store warehouses. Specialty stores reported the smallest incidence of sealed trucks in warehouses.

Measuring Shrinkage

Perpetual inventory records were maintained by 73% of the participating companies. Most (75%) of the participating companies took inventory once (34%) or twice (41%) per year.

Of the industry segments, mass merchandisers were most likely to take inventory only once a year (39%, compared to 32% for department stores and 29% for specialty stores). Department stores were most apt to take inventory twice a year (61%, compared to 38% of the specialty stores and 36% of the mass merchandisers).

Practices regarding shrinkage calculation were similar to those of inventory taking.

The majority (71%) of all companies calculated shrinkage once (33%) or twice (38%) a year. Mass merchandisers were more likely to make this calculation just once a year (37%), whereas, in most instances, department and specialty stores calculated it twice a year (57% and 35%, respectively).

High shrinkage companies (those with shrinkage in excess of 3% of sales) reported more frequent physical inventory counts (60%, twice a year) and shrinkage calculation (54%, twice a year).

Prosecution Expenditures and Policies

Expenditures

Prosecution costs as a percentage of sales increased from 0.13% to 0.16% in 1981. This amounts to more than $11 million in costs accumulated to prosecute shoplifters and other offenders. The highest prosecution costs were reported by specialty stores (0.22% of sales), followed by mass merchandisers (0.15%) and department stores (0.07%). Mass merchandisers showed the biggest increase in prosecution costs compared to 1980; their prosecution costs as a percentage of sales increased from 0.10% to 0.15% in 1981.

Smaller companies tend to spend more on prosecutions than larger companies. Companies with sales of less than $100 million (0.30% of sales) and with fewer than 50 stores (0.25% of sales) spend a greater proportion of their sales on prosecutions than companies with sales of more than $500 million (0.01% of sales) and more than 500 stores (0.10% of sales).

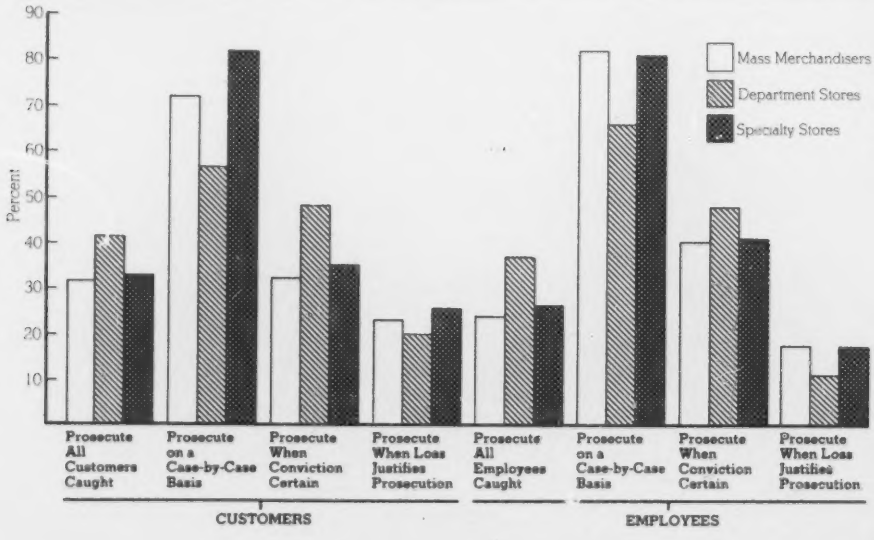
It should be noted that the absolute cost of prosecution has risen from 1980 ($8 million in 1980, $11 million in 1981). This can be partially attributed to an increase in the number of apprehensions from 315,000 to 434,000. However, fewer retailers have prosecuted all employees and all customers caught shoplifting (see the section on prosecution policies). Instead, they appear to be focusing on improved detection devices in their efforts to contain shrinkage. This trend is shown by increased security expenditures and relatively constant shrinkage levels (see "Shrinkage Results").

Policies

When asked about their policies regarding prosecutions, 35% of the respondents reported a policy of prosecuting all customers caught shoplifting, and 28% said they have a policy to prosecute all employees caught shoplifting (see Graph C). These figures are significantly lower than the figures reported in 1980—56% and 59%,

Graph C

Prosecution Policies



respectively. Most companies do not have a clearly defined policy regarding prosecution of offenders. Instead, they prosecute on a case-by-case basis (43%) or when conviction is certain (24%). Only 25% of companies with sales of more than $500 million prosecute all customers caught shoplifting.

Retail companies do not prosecute all shoplifters for three main reasons: the expense involved, the time required for filing complaints and attending trials, and the possible negative image that could result from prosecuting juveniles. Therefore, retailers usually prosecute only when they feel they have a strong case and are focusing, instead, on the prevention of shoplifting.

Department stores have a higher prosecution rate of employees and customers (42% and 37%, respectively) than mass merchandise and specialty stores. This can be attributed to the more expensive merchandise generally available in a department store and a larger security staff that can afford to have a person in court at the trial.

Forty-five percent of the participating companies regarded an eyewitness to the crime and good, reliable evidence as the key factors in securing a conviction.

Most companies are represented at the trial by a member of the security staff (65%) and the store manager (36%).

The chart below lists some of the figures on shoplifting apprehensions.

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Apprehensions	270,000	155,000	9,000	434,000
Prosecutions	128,000	76,000	4,000	208,000
Percentage of Prosecutions to Apprehensions	47%	49%	44%	48%
Convictions	93,000	65,000	3,000	161,000
Percentage of Convictions to Prosecutions	73%	86%	75%	77%
Percentage of Convictions to Apprehensions	34%	42%	33%	37%

The number of shoplifting apprehensions increased by 37% over the 1980 level of 315,000. Similarly, prosecutions increased by 30% and convictions by 20%, compared to the 1980 figures reported by this year's participants. These increases were largely responsible for the increase in prosecution expenditures in 1981 (see "Prosecution Expenditures and Policies").

Both the prosecution rate (1980, 51%) and conviction rate (1980, 84%) declined, a result of the changing trend in prosecution policies reported earlier.

Of those department stores providing data, an aggregate of 48% prosecute all persons apprehended in their stores. Department stores reported a higher proportion of prosecutions (49%) than specialty stores (44%) or mass merchandisers (47%). Prosecuting people requires a great deal of time and effort, and because stores generally have small security staffs, they may have insufficient resources to devote to this activity.

Our data on apprehensions revealed some good news for retailers. Of the more than 430,000 apprehensions reported, less than 22 of every 10,000 resulted in false arrest suits against the companies—quite an enviable record.

Organization Reporting and Personnel Practices

Staffing

Sixty percent of the respondents with sales of at least $500 million employ a minimum of 100 people in their security function, while only 6% of the companies with sales below $100 million reported a security force of this magnitude. By contrast, 73% of the companies with sales under $100 million hired fewer than 10 employees, compared to 13% of the companies with sales greater than $500 million. Overall, 35% of the mass merchandising respondents reported fewer than 10 employees, and 28% reported 100 or more (see Table 10).

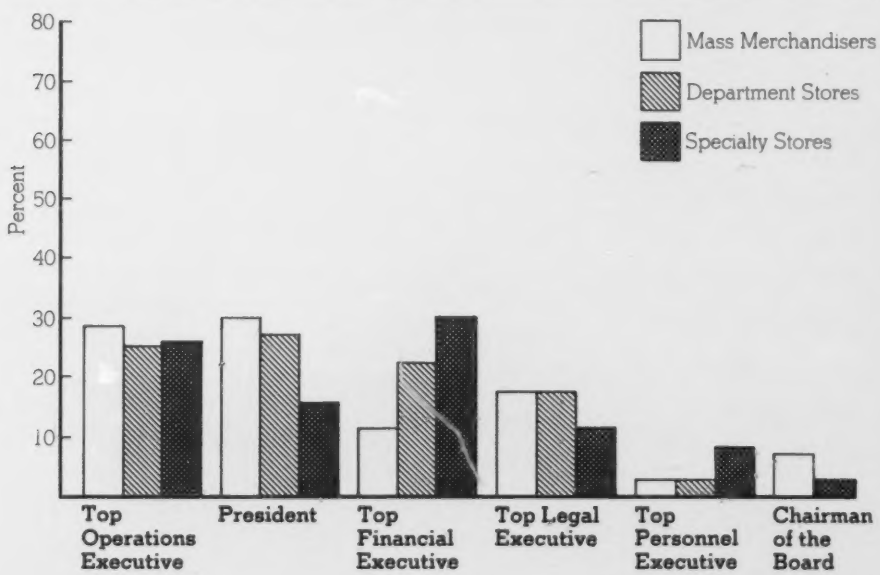
Eighty-seven percent of the specialty stores reported employing less than 20 people in the security function, while 75% of the department stores employ more than 20 employees in this function.

Organization Reporting

Forty percent of the respondents indicated that the corporate head of security most frequently reported to the top operations executive. The figure for 1980 was also 40%. Twenty-six percent (1980, 21%) of the corporate heads of security report directly to the company president, and 19% report to the top financial officer (see Graph D).

Graph D

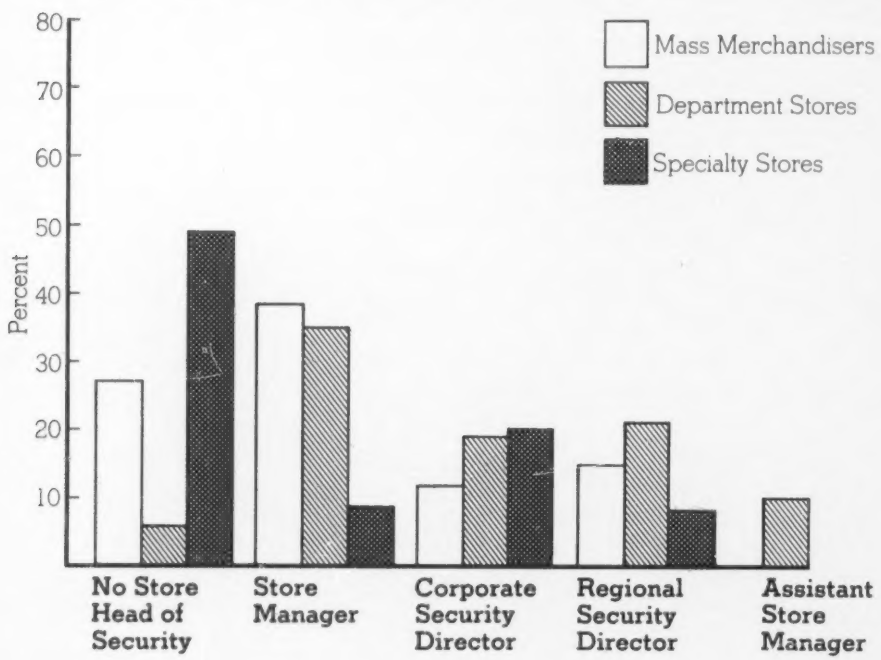
Person to Whom Corporate Head of Security Directly Reports



At the store level, 27% (1980, 34%) of the companies had their heads of security report to the store manager, followed by 17% (1980, 21%) whose security heads reported to the corporate security director (see Graph E).

Graph E

Person to Whom Store Head of Security Directly Reports



Twenty-nine percent of the responding companies did not have heads of security in the individual stores. This may be because the size and volume of an individual location may not warrant hiring a specific individual for security, and because the function can be performed by either the store manager or the operations manager.

Among mass merchandisers, the corporate head of security reported to the top operations executive in 27% (1980, 41%) of the companies and to the company president in 30% (1980, 23%) of the companies. Smaller companies (sales of less than $100 million) were more likely to have the corporate head of security report to the president. This reporting relationship exists in 41% of these companies, compared to 23% of the companies with sales greater than $500 million. In contrast, the corporate head of security reported directly to the top operations executive in 48% of the large companies, compared to 23% of the companies with sales of less than $100 million.

Hiring Practices

Among all participants, a background check (e.g., employment record, education, personal references) was the most frequently used method of screening security personnel (88%). (See Table 11.) This was followed by the use of a security or loss prevention interview (80%). These in-depth interviews, which focus on the applicant's knowledge of specific loss prevention techniques, are not usually required for non-security personnel. They were used for that purpose by only 14% of the respondents. For security personnel, 44% of the companies used credit checks as part of their screening process. Polygraphs and psychological tests were less frequently used (30% and 29%, respectively). This may be because such tests can be costly. These practices were relatively constant among all industry segments.

Smaller companies were less likely to use the security or loss prevention interview to screen security personnel. Sixty-eight percent of the companies with sales of less than $100 million used a security or loss prevention interview, compared to 84% of the companies with sales in excess of $500 million. Companies with low shrinkage were more likely to use credit checks than high shrinkage companies; 62% of participants with shrinkage of less than 1% of sales used credit checks, compared to 33% of companies with shrinkage in excess of 2%. Low shrinkage companies, however, used polygraph tests less frequently (24% of those with shrinkage of less than 1%, and 48% of those with shrinkage of more than 3%).

Background checks were also the most popular method of screening nonsecurity personnel: 88% of the companies reported this practice (see Table 11). Credit checks and personality or psychological tests were each used about half as frequently in screening nonsecurity personnel (28% and 26%, respectively). For the most part, these practices were similar among the industry segments.

Participants were asked to indicate the importance of significant retail experience, a college education, or a law enforcement background in hiring security personnel. Of these, significant retail experience was most frequently reported to be very important— 49% of the participants indicated that it is very important, compared to 22% reporting that a college education is very important, and 12% reporting that a law enforcement background is of great importance. (See Table 12.)

Similarly, 49% of the mass merchandisers regarded significant retail experience as very important in hiring security personnel. A college education and a law enforcement background were considered to be very important by 24% and 12% of the mass merchandisers, respectively.

Larger companies (with sales of at least $500 million) used somewhat different criteria than smaller companies (with sales of less than $100 million). Larger companies placed more importance on a college education than smaller companies, while smaller retailers placed more importance on a law enforcement background. No particular trend was evident among participants with sales of between $100 million and $500 million in sales. These groups regarded significant retail experience (54%), a college education (15%), and a law enforcement background (6%) as very important.

Smaller companies do not have the luxury, for the most part, of a separate legal staff. It would make sense, then, that they would require their security personnel to have experience in understanding some of the legal requirements and pitfalls in apprehensions and to have knowledge of specific security-related operations. The larger

companies would be more inclined to teach the law enforcement aspects of the security function to an educated individual with retail experience.

The emphasis placed on these criteria was similar for all three segments of the industry.

Use of Polygraph Tests on a Recurring Basis

Twenty-four percent of the participating companies use polygraph tests on a recurring basis to screen employees (see Table 13). This practice is prevalent among mass merchandisers (35%) and specialty stores (23%). Only 5% of department stores, however, use polygraph tests on a recurring basis. This may be attributed to the greater priority that department stores place on surveillance and hardware techniques. Polygraphing is more popular with smaller companies (sales of less than $100 million), where 29% of the participants use the technique, than with larger companies (sales in excess of $500 million), where only 15% of participating companies conduct such tests on a recurring basis. Polygraph tests are conducted mostly on an ad hoc basis (54%), although some companies (28%) conduct tests annually. Sixty percent of the companies that use polygraphing employ an outside service to conduct the tests. Security personnel are most often subject to polygraph tests (in 62% of companies using the technique), followed by sales personnel (60%), warehouse personnel (57%), and management (53%).

Personnel Policies — Training Programs

Training is important to employees for two reasons: it both teaches them about the shrinkage problem and protects them from it. Most companies (91%) have some form of training program for their new hires in the security function (see Table 14). Training manuals and in-store training programs are the most commonly used training methods (76% and 86%, respectively). Films are used by 64% of the participants and formal classes by 47%.

Salesmanship is often stressed in manuals and class instruction as the best deterrent to shoplifting. Another way to train employees is to have local police personnel instruct employees on the various methods shoplifters use and the laws affecting customer apprehension.

Overall, 96% of the mass merchandisers have a training program for new security personnel. Training manuals are used by 85% of the companies, and 90% use in-store training. Larger companies are more likely to have some of the various types of formal training programs. Smaller companies are more apt not to have any program.

Of the other industry segments, specialty stores reported the smallest incidence of formal training programs for all new hires in the security function: 25% reported that they did not have a program.

Training programs for security personnel are used by 97% of the department stores. In-store training (97%) and films (84%) are the most commonly used methods. Eighty-two percent of participating department stores also use training manuals.

Ninety-four percent of companies have some form of training program for new non-security personnel (see Table 14). In-store training (85%), films (62%), and training manuals (55%) are the most prevalent methods used.

Mass merchandisers are following the general industry trend with regard to training methods. But training manuals are more popular as a training method with mass merchants (used by 66% of the respondents) than with the other industry segments.

As for specialty stores, 11% reported having no formal training program for nonsecurity personnel. Other industry trends are also evident in specialty stores, except for films, which are used by only 40% of the respondents.

In-store training (85%) and films (83%) are the most popular training methods used by department stores for nonsecurity personnel. Formal classes are also popular (54%), but training manuals are less frequently used by department stores (29%) than they are throughout the industry in general (55%). Only 5% of department stores responding to the survey have no form of training program for nonsecurity personnel.

Overall, 75% of the companies have an ongoing program to train security personnel in the techniques of loss prevention. Generally, the larger the company, the more prevalent this practice.

Training programs were most common among mass retailers (82%). Of these companies, 86% of those with sales of at least $500 million train all employees, compared to 80% of those with sales below $500 million.

Department and specialty stores reported similar incidences of training programs for security personnel (78% and 60%, respectively).

Sixty-five percent of the participants use continuing programs to update new nonsecurity personnel in techniques of security and loss prevention. This practice is more common with mass merchants (72%) than with department stores or specialty stores (60% each).

Reward and Recognition Programs

Reward programs are based on the premise that the majority of employees are trustworthy and that the use of employees to combat theft will help reduce shrinkage.

Participants were asked how they reward employees for improved loss prevention. Fifty-one percent of the respondents reported that they pay employees for helping reduce shrinkage or apprehend individuals (see Table 15). Thirty-eight percent provide other forms of recognition to individual employees who are instrumental in controlling shrinkage. Thirty percent of all participants did not have any reward program. We believe that these figures demonstrate how concerned retailers are about shrinkage and the importance they attach to employee involvement in its control.

Among mass merchandisers, 48% of the companies reported paying employees. Other forms of recognition were rewards for apprehension of shoplifters (48%) or departmental shrinkage reduction (43%).

Larger companies (at least $500 million in sales) were more likely to provide nonmonetary recognition than companies with less than $100 million in sales.

Department stores were more inclined to have monetary reward programs (65%) than mass merchandisers or specialty stores. Department stores also acknowledge employee efforts to control shrinkage more often in other ways than other retailers. For example, 51% recognize personnel (through citations, for example) for apprehending shoplifters, and 49% recognize personnel for helping to control shrinkage in general.

Companies with high shrinkage have a higher incidence of reward programs than other respondents; 80% of retailers with shrinkage in excess of 3% of sales have some form of reward or recognition program. The most common forms are: paying non-security personnel for apprehending shoplifters (38%), providing recognition to personnel for apprehending shoplifters (62%), and providing recognition to personnel instrumental in controlling shrinkage (50%).

Monetary awards may be given to employees for several reasons, such as giving information to security personnel that leads to the apprehension of a shoplifter; giving information to security that leads to the apprehension of an employee; offering suggestions on loss prevention; and contributing to an overall improvement in departmental or total store shrinkage results.

Rewards can be in the form of cash, salary increases, or bonuses based on shortage improvement. Companies that do not provide monetary awards may either put a commendation in the employee's file or give the employee a certificate of merit.

Mass Merchandisers: Shrinkage Characteristics

This section focuses on the differences between the policies and procedures of high shrinkage and low shrinkage companies in the mass merchandising segment of the industry. For purposes of this study, low shrinkage mass merchandisers are defined as companies with less than 2% shrinkage and high shrinkage mass merchandisers are those companies with shrinkage of 2% or more. High shrinkage statistics quoted in this section represent the weighted average of the high shrinkage categories reported in Tables 16-19. Shrinkage characteristics of department stores are presented in another section of this report.

Inventory shrinkage for fiscal 1981 ranged from a low of less than 1% of sales to more than 4%. Fifty percent of the reporting companies experienced low shrinkage. High shrinkage companies were more successful in improving their loss prevention performance: 25% of the low shrinkage companies reported a decrease in shrinkage in 1981 compared to 34% of the high shrinkage companies that improved their performance. Conversely, high shrinkage companies also reported increased losses (40% vs. 36%).

The Participants

Low shrinkage companies tended to differ from high shrinkage companies in both company size and security budget. High shrinkage companies were slightly more likely to be small: 71% of the companies with high shrinkage had sales of less than $500 million (vs. 69% of the low shrinkage companies—see Table 16). But, 73% had a minimum of 100 stores (vs. 24% of low shrinkage companies).

Companies less successful in controlling shrinkage had a tendency to spend more money on security. Whereas 89% of the low shrinkage companies spent less than 0.5% of their sales on security, only 56% of the high shrinkage companies could contain their budgets at that level (see Table 17).

Personnel Practices

Low shrinkage companies were more likely to have their corporate head of security report to the company president than to any other executive. Over one-third (37%) of low shrinkage companies reported this relationship, compared to 29% of the high shrinkage companies. Mass merchandisers were more likely to assign local control of the security function to individual store managers. Forty percent of the participating companies reported that the store security head reported to the store manager.

Except for the use of psychological tests, low shrinkage companies tended to make more use of personnel screening methods, such as background checks, credit checks, polygraph tests, and security and loss prevention interviews, in their hiring practices for nonsecurity personnel. In hiring security personnel, however, high shrinkage companies more frequently used security and loss prevention interviews (90% vs. 77% of low shrinkage companies) and polygraph tests (48% vs. 19%). Credit checks were more popular with low shrinkage companies, 51% of which employed that method in screening new security personnel, compared to 24% of high shrinkage companies. High shrinkage companies were more likely to consider significant retail experience to be very important for new hires in the security function (59% vs. 40% of low shrinkage companies).

Companies successful in controlling shrinkage were more likely to train new hires in the security function through the use of formal classes (60% vs. 42%), whereas high shrinkage companies used fil[illegible] (73% vs. 66%) and in-store training (91% vs. 83%—see

Table 18). In training nonsecurity personnel, low shrinkage companies more frequently used in-store training sessions (94% vs. 84%) and formal classes (43% vs. 40%), while high shrinkage companies preferred training manuals (78% vs. 60%) and films (75% vs. 68%). Low shrinkage companies were more likely to provide a continuing program on loss prevention techniques to update nonsecurity personnel (80% vs. 67%) and security personnel (83% vs. 76%).

Security Practices

On their selling floors, high shrinkage and low shrinkage companies tended to emphasize different security practices (see Table 19). Companies that were more successful in controlling shrinkage were more likely to use mirrors (91% vs. 88%) and observation booths (67% vs. 60%). Less successful companies were more apt to use guards (65% vs. 44%), limited access areas (85% vs. 75%), and concealed TV monitors (42% vs. 19%).

In out-of-store warehouses, high shrinkage companies were more likely to keep warehouse doors closed than their counterparts (100% vs. 89%) and use sealed trucks (97% vs. 85%).

Prosecution Policies

While there were no significant differences in the employee prosecution policies of low and high shrinkage companies, the more successful companies were more likely to prosecute all customers caught shoplifting (40% vs. 23%). Low shrinkage companies also appear to be more successful at prosecuting offenders: they prosecuted almost three-quarters of all people they apprehended (71% vs. 40%), and 89% (compared to 49%) of the prosecutions resulted in convictions.

Profile of Low Shrinkage Mass Merchandisers

The following profile presents a summary of the characteristics and loss prevention policies of the mass merchandising companies that reported shrinkage of under 2%.

General Characteristics

- These companies are often small in size: 69% reported sales of less than $500 million, and 76% had less than 100 individual locations.
- They often have at least one-half of their stores in suburban locations (64%).
- They tend to spend less than 0.5% of total sales revenues on their security function (89%).

Personnel Practices

- The corporate head of security frequently reports to the president (29%).
- The individual stores' heads of security most frequently report directly to the store manager (40%).
- Employers conduct continuing programs to update all employees in loss prevention techniques (80%).
- New hires in the security function receive special training (93%) through the use of a training manual (83%), in-store training (83%), films (66%), and formal classes (60%).
- New hires into the security function are screened through background checks (94%), security or loss prevention interviews (77%), and credit checks (51%). Background checks are performed in the screening of nonsecurity personnel (91%).
- Employees are rewarded for their role in improving shrinkage (62%) through monetary payment (57%) or through recognition for apprehension of offenders (42%) and/or for controlling departmental shrinkage (48%).

Control Policies

- These companies take a hard-line approach toward prosecutions: 71% of apprehensions were prosecuted, and 89% of prosecutions resulted in convictions.
- Most companies (83%) maintain perpetual inventory records and take inventory at least annually (90%).
- Security devices most likely to be used in the selling area are: mirrors (88%), limited access areas (75%), and observation booths (67%).
- As a security precaution, companies are likely to ensure that both in-store and out-of-store warehouse doors are kept closed (93% and 89%, respectively) and that trucks are sealed (62% and 85%, respectively).

Attitudes Regarding Shrinkage

- Retailers are likely to attribute the greatest portion of their shrinkage to employee theft; 53% attributed at least one-half of their shrinkage to this problem.
- Retailers believe that the three most effective actions they could take to reduce shrinkage in their companies are improving employee education (91%), improving employee screening (66%), and improving their paperwork and accounting methods (44%).

Department Stores: Shrinkage Characteristics

This section focuses on the difference between the policies and procedures of high shrinkage and low shrinkage department stores. For purposes of this study, low shrinkage stores are defined as those with shrinkage of less than 2% of sales; high shrinkage companies are those with shrinkage of 2% or more of sales. High shrinkage statistics quoted in this section represent the weighted average of the high shrinkage categories reported in Tables 20-23.

Shrinkage as a percentage of sales for participating department stores ranged from less than 0.75% to more than 3.5% of sales for 1981. Forty-one percent of the companies had shrinkage of less than 2% of sales. Sixty-five percent of these low shrinkage companies reported a decrease in shrinkage levels compared to 1980. In contrast, only 33% of the high shrinkage companies reported improved shrinkage levels. (Sixty-two percent of the high shrinkage companies reported increased shrinkage levels in 1981 compared to 1980, while only 24% of low shrinkage companies did not reduce shrinkage levels.)

The Participants

The size of low and high shrinkage companies was similar. The majority of participants had sales of less than $500 million (70% of low shrinkage and 91% of high shrinkage companies—see Table 20), and 92% of high shrinkage and 83% of low shrinkage department stores had fewer than 50 stores. Fifty-eight percent of the low shrinkage department stores spent less than 0.5% of their sales on security in 1981 (compared to 48% of high shrinkage companies). (See Table 21.)

Personnel Practices

Companies that were successful in controlling shrinkage were more likely to have the corporate head of security report to the top financial executive (36%) or the top operations executive (28%). On the other hand, in the case of high shrinkage companies, the corporate head of security was more likely to report to the president (33%) or to the top operations executive (29%). Control over the security function in low shrinkage department stores is more frequently assigned to the store manager (47% of participants) or the regional head of security (29%). In high shrinkage stores, however, the store head of security more often reports to the store manager (33%) or the corporate security director (25%).

Hiring policies of high shrinkage and low shrinkage companies were fairly similar. The occurrence of background checks, psychological tests, polygraph tests, and security or loss prevention interviews was similar for both types of department stores. But low shrinkage companies made more extensive use of credit checks in hiring security and nonsecurity personnel.

High shrinkage department stores (66%) consider significant retail experience to be very important for new hires in the security function. Only 27% of low shrinkage companies regard this attribute as important.

High shrinkage companies appear to provide their new security employees with more comprehensive training than low shrinkage department stores (see Table 22). The most popular training techniques in high shrinkage companies are films (used by 92% of the high shrinkage companies and 79% of the low shrinkage companies), training manuals (87% vs. 79%), and formal classes (75% vs. 43%).

All participating department stores had in-store training programs for new employees in the security function. Techniques for new nonsecurity employees were fairly similar, except that films were more popular with high shrinkage companies (92%) than low shrinkage companies (76%), and training manuals were used by 41% of low shrinkage department stores compared to 29% of participating high shrinkage department stores. Ninety-one percent of high shrinkage companies (vs. 65% of low shrinkage companies) have a continuing program to update security personnel in the techniques of security and loss prevention. Sixty-seven percent of these companies (59% of low shrinkage companies) have similar programs for nonsecurity personnel.

Security Practices

Low shrinkage and high shrinkage companies differed in their use of security devices on the selling floor (see Table 23). High shrinkage companies use limited access areas more frequently (83% vs. 71% of low shrinkage department stores). They also use lock-and-chain devices (79% vs. 65%), guards (71% vs. 47%), and electronic tags (62% vs. 29%) more often than low shrinkage companies. Low shrinkage companies favor mirrors (76% vs. 62%) and point-of-sale systems (71% vs. 62%).

In both in-store and out-of-store warehouses, high shrinkage department stores were more likely to use guards (55% vs. 43%), TV monitors (50% vs. 36%), and sealed trucks (81% vs. 69%) than low shrinkage stores.

Prosecution Policies

Participating department stores varied in the application of their prosecution policies. Fifty percent of the high shrinkage department stores prosecute all customers caught shoplifting, compared to 29% of the low shrinkage participants. In contrast, only 33% of these companies prosecute all employees caught shoplifting, compared to 41% of the low shrinkage companies. Low shrinkage department stores, however, have prosecuted 86% of all apprehensions, compared to 53% for their high shrinkage counterparts.

Profile of Low Shrinkage Department Stores

The following profile presents a summary of the characteristics and loss prevention policies of the participating department stores that reported shrinkage at less than 2% of sales.

General Characteristics

- Seventy percent of the retailers reported sales of less than $500 million, and 83% had fewer than 50 stores.
- Most (69%) have more than three-quarters of their stores in suburban locations.
- These companies tend to spend less than 0.5% of total sales revenue on the security function (58%).

Personnel Practices

- The corporate head of security frequently reports to the top financial executive (36%) or the top operations executive (28%).
- Responsibility for security of the individual stores is frequently assigned to the store manager (47%).
- Security (65%) and nonsecurity (59%) personnel are updated continuously in the techniques of security and loss prevention.
- Popular training techniques for security personnel include in-store training sessions (100%), films (79%), and training manuals (79%).
- Screening practices for new hires in the security and nonsecurity functions most frequently include background checks (100%) and credit checks (93% and 59%). In addition, a security or loss prevention interview (93%) is a popular technique for screening new hires in the security function.
- Employees are rewarded for their roles in controlling shrinkage (76%), mostly through recognition (citations, for example) for apprehending shoplifters (65%) or controlling departmental shrinkage (65%).

Control Policies

- On the average, low shrinkage department stores prosecuted 48% of apprehended shoplifters. Eighty-six percent of these prosecutions resulted in convictions.
- Most companies (75%) maintain perpetual inventory records and take inventory at least annually (88%).
- Security devices most likely to be used in the selling area are limited access areas (71%), lock-and-chain devices (65%), mirrors (76%), and point-of-sale techniques (71%).
- Warehouse security techniques for in-store and out-of-store warehousing include sealed trucks (69% and 87%) and closed doors (100% and 94%). In addition, TV monitors (69%) and guards (62%) are also popular as an out-of-store warehouse security technique.

Attitudes Regarding Shrinkage

- Retailers believe that the three most effective actions they could take to reduce shrinkage are improving employee education (94%), improving employee screening (53%), and improving paperwork and accounting methods (65%).

APPENDIX I

Tables

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Guide to Reading the Tables

The following tables correspond to the discussion of survey findings presented in the text of this report. While the text highlights and interprets the survey findings, the tables provide more detailed statistics.

All tables in this report are organized vertically. The first column indicates the topic of the table. Each subsequent column presents an analysis of the data. For example, the topic of Table 2 is "Sales Volume of Participating Companies," and the first analysis is of "Mass Merchandisers." Reading down the table, the reader will find that only two of the responding mass merchandisers had sales volumes of less than $10 million, 15 had sales of between $10 million and $49 million, and so on.

In interpreting the tables, readers should be aware that multiple responses occur on tables where participants selected more than one answer. Frequently the totals are more than 100% when multiple responses occur. Table 11, "Methods Used To Screen Personnel," is a typical example of a multiple response question.

Table 1
Shrinkage Results

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Percentage of Shrinkage 1981	1.9%	2.3%	2.0%	2.0%
Percentage of Shrinkage 1980	1.9	2.4	2.0	2.0
Amount of Shrinkage 1981 (millions of dollars)	$957	$628	$140	$1,725

Table 2
1981 Sales Volume of Participating Companies by Number of Respondents

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Under $10 Million	2	2	6	10
$10 to $49 Million	15	7	26	48
$50 to $99 Million	15	8	16	39
$100 to $499 Million	31	19	19	69
$500 Million and Over	23	7	2	32

Table 3
Analysis of Participants by Number of Stores

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
1 to 9	8%	16%	9%	10%
10 to 49	37	72	35	44
50 to 99	16	9	29	19
100 to 199	14	0	8	9
200 to 499	13	0	6	8
500 or more	12	2	13	10

Table 4
Location of Stores

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
100% Urban	14%	20%	30%	21%
1% to 49% Suburban	28	2	10	16
50% to 74% Suburban	7	10	10	9
75% to 99% Suburban	29	54	34	36
100% Suburban	22	14	16	18

Table 5

Shrinkage as a Percentage of 1981 Sales Revenue

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Less than 1%	25%	12%	24%	22%
1% to 1.49%	16	7	9	11
1.5% to 1.99%	10	22	22	17
2% to 2.49%	21	19	14	18
2.5% to 2.99%	10	15	10	11
3% to 3.49%	10	10	9	10
3.5% or More	8	15	12	11

Table 6

Total Security Expenditure as a Percentage of 1981 Sales Revenue

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Less than .1%	16%	14%	19%	17%
.1% to .24%	32	11	25	25
.25% to .49%	22	23	23	22
.5% to .99%	21	34	13	21
1% or More	9	18	20	15

Table 7

Security Devices Used on the Selling Floor

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Mirrors	86%	70%	51%	70%
Limited Access Areas	77	77	49	67
Observation Booths	62	65	17	47
Visible TV Monitors	36	40	25	33
Concealed TV Monitors	31	47	9	27
Electronic Tags	19	49	29	29
Point-of-Sale Systems	50	63	42	50
Guards	52	60	28	45
Lock-and-Chain Devices	56	72	52	58

Table 8

Percentage of Participants Using a Security Device That Believe It To Be the Most Effective

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Mirrors	7%	10%	9%	8%
Limited Access Areas	12	0	27	13
Observation Booths	26	19	25	24
Visible TV Monitors	3	0	12	5
Concealed TV Monitors	7	15	0	9
Electronic Tags	44	38	55	47
Point-of-Sale Systems	16	12	21	16
Guards	24	12	26	21
Lock-and-Chain Devices	6	19	11	11

Table 9

Percentage of Participants Using a Security Device That Believe It To Be the Least Effective

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Mirrors	46%	47%	40%	45%
Limited Access Areas	9	7	12	13
Observation Booths	6	4	8	5
Visible TV Monitors	10	18	35	19
Concealed TV Monitors	15	0	17	9
Electronic Tags	12	0	0	4
Point-of-Sale Systems	9	4	3	6
Guards	4	8	21	9
Lock-and-Chain Devices	4	0	14	6

Table 10

Number of Full-Time Employees in the Security Function

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
1 to 4	24%	8%	42%	26%
5 to 9	11	11	29	16
10 to 19	12	5	16	12
20 to 99	25	41	9	24
100 or More	28	35	4	22

Table 11
Methods Used To Screen Personnel

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Security Personnel				
Background Check	91%	95%	76%	88%
Credit Check	38	64	37	44
Polygraph	33	21	33	30
Security/Loss Prevention Interview	85	92	61	80
Personality or Psychological Test	28	18	39	29
Nonsecurity Personnel				
Background Check	86	98	87	88
Credit Check	25	35	26	28
Polygraph	27	3	26	20
Security/Loss Prevention Interview	23	5	8	14
Personality or Psychological Test	30	18	26	26

Table 12
Prior Experience Considered To Be Very Important in Hiring Security Personnel

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Significant Retail Experience	49%	46%	50%	49%
College Education	24	21	20	22
Law Enforcement Background	12	10	13	12

Table 13
Use of Polygraph Tests on a Recurring Basis

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Ongoing Tests to Screen Employees	35%	5%	23%	24%
Category of Employee Subject to Polygraphing				
Clerical	50	0	27	40
Management	57	0	53	53
Security	67	50	53	62
Salespeople	60	0	67	60
Warehouse	63	50	47	57
Other	37	0	47	43

Table 14
Components of Personnel Training Programs

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Training for Security Personnel				
Training Manual	85%	82%	57%	76%
In-Store Training	90	97	70	86
Formal Classes	47	61	34	47
Films	68	84	41	64
Other	12	8	7	9
No Program	7	3	25	9
Training for Nonsecurity Personnel				
Training Manual	66	29	56	55
In-Store Training	87	85	84	85
Formal Classes	37	54	27	37
Films	69	83	40	62
Other	5	12	3	6
No Program	4	5	11	6

Table 15

Reward Policies for Improved Loss Prevention

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Pay Nonsecurity Personnel for Apprehensions	23%	46%	26%	28%
Pay Security Personnel for Apprehensions	2	5	3	3
Pay All Employees for Shrinkage Reduction	10	2	6	7
Pay Employees Responsible for Departmental Shrinkage Reduction	13	12	14	13
Recognition of Personnel for Apprehensions	48	51	35	44
Recognition of Personnel for Shrinkage Control	43	49	26	38
Other Rewards	10	12	6	9
No Rewards	31	14	38	30

Table 16

Mass Merchandisers: 1981 Sales Volume by Shrinkage Percentage

	Shrinkage Percentage		
Sales Volume	Under 2%	2% to 2.9%	3% and Over
Under $100 Million	36%	23%	46%
$100 to $499 Million	33	55	15
$500 Million to $1 Billion	17	13	31
Over $1 Billion	14	9	8

Table 17

Mass Merchandisers: Total Security Expenditure as a Percentage of 1981 Sales Revenue by Shrinkage Percentage

	Shrinkage Percentage		
Security Expenditure	Under 2%	2% to 2.9%	3% and Over
Less than .1%	33%	0%	17%
.1% to .24%	41	25	17
.25% to .49%	15	25	33
.5% to .99%	11	40	0
1% or More	0	10	33

Table 18

Mass Merchandisers:
Components of Personnel Training Programs by Shrinkage Percentage

	Shrinkage Percentage		
	Under 2%	2% to 2.9%	3% and Over
Training for Security Personnel			
Training Manual	83%	86%	75%
In-Store Training	83	86	100
Formal Classes	60	52	25
Films	66	86	50
Other	13	10	0
No Program	7	5	0
Training for Nonsecurity Personnel			
Training Manual	60	85	67
In-Store Training	94	80	92
Formal Classes	43	55	17
Films	68	75	75
Other	6	0	8
No Program	3	0	0

Table 19

Mass Merchandisers:
Security Devices Used on the Selling Floor by Shrinkage Percentage

	Shrinkage Percentage		
	Under 2%	2% to 2.9%	3% and Over
Mirrors	91%	95%	77%
Limited Access Areas	75	86	85
Observation Booths	67	64	54
Visible TV Monitors	38	23	54
Concealed TV Monitors	19	41	46
Electronic Tags	11	22	38
Point-of-Sale Systems	52	55	38
Guards	44	59	77
Lock-and-Chain Devices	55	50	77

Table 20

Department Stores:
1981 Sales Volume by Shrinkage Percentage

	Shrinkage Percentage		
Sales Volume	Under 2%	2% to 2.9%	3% and Over
Under $100 Million	35%	57%	20%
$100 to $499 Million	35	43	60
$500 Million to $1 Billion	24	0	20
Over $1 Billion	6	0	0

Table 21

Department Stores:
Total Security Expenditure as a Percentage of 1981 Sales Revenue by Shrinkage Percentage

	Shrinkage Percentage		
Security Expenditure	Under 2%	2% to 2.9%	3% and Over
Less than .1%	8%	15%	20%
.1% to .24%	33	8	0
.25% to .49%	17	46	0
.5% to .99%	34	23	40
1% or More	8	8	40

Table 22

Department Stores:
Components of Personnel Training Programs by Shrinkage Percentage

	Shrinkage Percentage		
	Under 2%	2% to 2.9%	3% and Over
Training for Security Personnel			
Training Manual	79%	85%	90%
In-Store Training	100	100	100
Formal Classes	43	77	60
Films	79	85	100
Other	14	7	0
No Program	6	0	0
Training for Nonsecurity Personnel			
Training Manual	41	23	30
In-Store Training	88	85	90
Formal Classes	59	69	30
Films	76	85	100
Other	17	0	20
No Program	6	0	0

Table 23

Department Stores:
Security Devices Used on the Selling Floor by Shrinkage Percentage

	Shrinkage Percentage		
	Under 2%	2% to 2.9%	3% and Over
Mirrors	76%	64%	60%
Limited Access Areas	71	86	80
Observation Booths	65	50	90
Visible TV Monitors	23	43	60
Concealed TV Monitors	41	43	70
Electronic Tags	29	57	70
Point-of-Sale Systems	71	64	60
Guards	47	64	80
Lock-and-Chain Devices	65	64	100

APPENDIX II

Food Retailers

The Participants

Food stores is a new category in this year's study. Twenty-four food retailers operating in more than 2,800 individual locations participated in this year's study. Their aggregate 1981 sales volume was in excess of $16 billion.

Thirty-eight percent of all participating food retailers had sales between $100 million and $499 million. Sixteen percent of the stores had sales greater than $500 million.

Forty-three percent of the food retailers had fewer than 50 individual store locations. More than 30% of the respondents operated in at least 100 store locations. Thirty-nine percent of these food chains reported operating at least one-half of their stores in urban areas.

Shrinkage Results

Study participants reported aggregate inventory shrinkage to be 0.93% of sales for the 1981 fiscal year, a decline from 1.09% in 1980. While overall shrinkage declined for food retailers, one-third of the companies reported a decrease in shrinkage and one-third reported an increase.

In 1981 the dollar value of shrinkage in participating companies exceeded $152 million. In the sections on security expenditures, devices used on the selling floor, prosecutions, and personnel policies, we discuss some of the actions food retailers have taken to reduce shrinkage.

Shrinkage Attributions

The participating food retailers attributed approximately 65% of their inventory shrinkage to employee theft, 22% to shoplifting, and 13% to errors in paperwork and accounting procedures.

It should be noted that, in general, most companies do not have formal methods of determining the actual source of shrinkage. But, for purposes of this study, we asked for opinions.

Participants were asked to indicate up to three courses of action that would be most beneficial in reducing shrinkage in their companies. The most common response was to improve employee education and awareness of loss prevention (78%). Another 70% believe improved personnel screening would improve shrinkage performance. These results are not surprising, since these companies attributed more than two-thirds of their shrinkage to employee theft. Although the respondents attributed the smallest portion of their shrinkage to paperwork problems, 44% believed that improved paperwork and accounting methods would improve shrinkage results.

Security Expenditures

The dollars spent in 1981 on security and loss prevention staffing, equipment, and programs amounted to $62 million. This represents 0.39% of sales, an increase from the 0.36% spent by these companies in 1980. Forty-seven percent of the food retailers increased their security expenditures from 1980 to 1981. Smaller companies (with less than 50 stores) were more likely to spend more on security (0.4% of sales) than companies with more than 500 stores (0.1%).

Organization Reporting and Security Personnel Practices

Among food retailers, the corporate head of security most frequently (41%) reported directly to the president. Twenty-nine percent of these corporate heads of security reported to the top finance executive, and 18% reported to the top operations executive. At the store level, 26% of the companies had their head of security report to the corporate director of security. Twenty-two percent of the store heads of security reported to the regional security director, and 13% reported to the store manager. Twenty-two percent of the companies reported having no head of security at the store level.

Twenty-two percent of the responding food retailers reported having more than 20 full-time security personnel. Thirty-nine percent have less than four full-time security personnel. As expected, the number of employees in the security function varied with firm size; 71% of the companies with less than $100 million in sales have less than four full-time security personnel, while all of the companies with sales in excess of $500 million employ more than 20 in the security function.

Hiring Practices

A background check (e.g., employment experience, education, personal references) was the most frequently used method by food retailers (91%) for screening new security personnel. Forty-eight percent require credit checks, and 33% perform polygraph tests.

For screening nonsecurity personnel, background checks (81%) and personality tests (24%) were the most popular. Ten percent of the companies used credit checks; only 5% performed polygraph tests to screen nonsecurity personnel.

Thirty-one percent of the survey participants use polygraphing to screen employees on an ongoing basis. None of these companies conduct tests regularly; instead, they do so on an ad hoc basis.

Forty percent of the companies using the device employ an outside service to conduct the tests, and another 40% conduct the tests themselves.

Personnel Training Policies

One-half of the food retailers responding to the survey have continuing training programs in security and loss prevention techniques for their security personnel.

Most of the companies (77%) have some form of training program for their new security personnel. Training manuals and in-store programs were the most frequently used training methods (59% and 73%, respectively). Formal classes were used by 36% of the companies.

Most of the companies (91%) also have some form of training program for their nonsecurity personnel. In-store training programs were also the most frequently used method in this case, with 78% of the companies using them. Films and training manuals were both used by 44% of the companies.

Reward and Recognition Programs

Fifty-nine of the participating food retailers have formal reward or recognition programs for employees instrumental in controlling shrinkage. Thirty-six percent provide monetary rewards to employees for helping to reduce shrinkage or for apprehending indi-

viduals who steal. Forty-one percent of the companies have no formal reward or recognition program.

Shrinkage Control Practices

Perpetual inventory records were maintained by 70% of the participating food retailers. Most (58%) of the retailers took physical inventory quarterly, while 17% took it monthly.

Shrinkage was calculated quarterly by 36% of the respondents and monthly by 18%. Interestingly, shrinkage was calculated on a departmental basis for 27% of the companies. These companies seem to be controlling their shrinkage by keeping a closer watch over those departments with higher shrinkage levels.

Mirrors were the most frequently used security devices; they were used by 75% of the companies. Limited access areas were used by 50% of the participants. Point-of-sale devices (50%) and guards (36%) were the most effective methods for companies reporting their use. Although 75% of the participants use mirrors, only 11% of the companies using them believe them to be the most effective device for loss prevention on the selling floor.

Prosecution Policies

When asked about their prosecution policies, only 29% of the respondents said they prosecute all customers caught shoplifting. Thirty percent of the participants prosecute all employees involved in theft. Most companies prosecute on a case-by-case basis (75% for customers and 93% for employees).

Overall, those companies reporting data prosecuted an average of 56% of all individuals apprehended in their stores; of these, 98% resulted in convictions. In total, of the more than 57,000 apprehensions reported, less than 23 out of 10,000 resulted in false arrest suits against the companies.

Warehouse Security Methods

The most commonly used warehouse security procedure was to ensure that doors are kept closed when not in use (reported by 88% of the respondents for out-of-store warehouses, 90% for in-store warehouses). The next most commonly used procedure was sealed trucks (71% and 32% for out-of-store and in-store, respectively). Guards were more common in out-of-store warehouses, being used by 64% of the respondents versus 32% in in-store warehouses.

APPENDIX III

1982 Loss Prevention Checklist

This list indicates several steps that can be taken by retailers to help control shrinkage. Does your company use these techniques?

	Yes	*No*
1. Do staffing schedules of both security and sales personnel reflect:		
(a) Customer traffic patterns?	___	___
(b) Promotional and seasonal staffing needs?	___	___
2. Are selling personnel adequately trained in security and loss prevention techniques?	___	___
3. Are background checks used and currently evaluated for all hires?	___	___
4. Are personality/psychological tests used to screen new hires?	___	___
5. Are polygraph tests used to screen employees on a recurring basis?	___	___
6. Are selling personnel aware of the method used to reach security personnel in case of emergency?	___	___
7. Are selling personnel properly trained in the writing of sales checks, the use of register equipment, and the reading of price tickets?	___	___
8. Are conspicuous signs posted throughout the store warning that all shoplifters will be prosecuted?	___	___
9. Are all store areas kept locked when not in use?	___	___
10. Are locking devices on showcases and doors checked for state of repair?	___	___
11. Are spot audits made of merchandise requiring electronic tags to determine compliance?	___	___
12. Are statistics maintained segregating apprehensions of both employees and customers?	___	___
13. Are statistics maintained regarding the cost of prosecuting shoplifters?	___	___
14. Do you have a continuing training program to update personnel in loss prevention techniques?	___	___
15. Are results of apprehensions, convictions, ar[illegible]tion policies posted in employee work areas (excluding selling floo[illegible]	___	___
16. Are security personnel and guards stationed at t[illegible]oor completely knowledgeable as to techniques of apprehension to avoid legal problems?	___	___
17. Does the receiving department check incoming merchandise against vendor invoices to ensure that all items are present?	___	___
18. Are all discrepancies documented and investigated immediately?	___	___
19. Is the vendor invoice matched against a purchase order on file?	___	___
20. Are retail price tickets checked to ensure correctness?	___	___
21. Is the merchandise adequately protected and accounted for when it is moved from receiving or storage areas to the selling floor?	___	___

	Yes	*No*
22. Is inventory of high-unit items taken on a daily basis?	____	____
23. Are there strict controls and frequent reviews for the handling of:		
(a) Layaways?	____	____
(b) Employee discounts?	____	____
(c) Markdowns?	____	____
(d) Interstore transfers?	____	____
24. Are purchase markdown and interstore transfer journals distributed and reviewed on a regular basis?	____	____
25. Are all customer claims of nondelivery investigated promptly?	____	____
26. Are shrinkage statistics maintained by department and compared to prior years' results?	____	____
27. Are policies in effect that provide for timely follow-up of high shrinkage departments?	____	____
28. Do you have a policy in use for prosecution of employees and customers caught shoplifting?	____	____
29. Do you have a formalized inventory shrinkage reduction strategy that focuses on the prevention of shrinkage losses or early detection of theft?	____	____
30. Is specific responsibility established for [illegible]tages at each inventory location?	____	____
31. Is your company's shrinkage reduction effort coordinated by a single individual charged with that responsibility?	____	____
32. Does each management function (for example, the president, vice-president, store manager, and internal audit) have a clearly defined role in reducing shrinkage?	____	____
33. Do you have a reward recognition program for employees instrumental in the apprehension of shoplifters or in the reduction of shortages?	____	____
34. Do you test your security equipment on a regular basis?	____	____
35. Is the effectiveness of and necessity for uniformed guard coverage periodically reviewed?	____	____
36. Do you conduct a follow-up audit of weaknesses derived from internal or external audit?	____	____
37. Is merchandise held as evidence for shoplifting under accounting control?	____	____

If you would like additional copies of this Loss Prevention Checklist, or if you have questions about the implications of your answers, please contact:

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